

January 2001

Major Management Challenges and Program Risks

Department of State



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Abstract This report addresses the major performance and accountability challenges facing the Department of State. As the lead agency representing U.S. interests overseas, the Department of State is vested with a wide range of responsibilities, including formulating U.S. policy on diverse international issues; coordinating and implementing U.S. government programs and activities overseas; and influencing other countries to adopt policies and practices consistent with U.S. interests. As such, the Department has responsibility for, among other things, assisting U.S. businesses overseas, providing services to U.S. citizens abroad, issuing passports and visas, participating in international drug control programs, and providing security to U.S. personnel and facilities overseas. This report includes a summary of actions that State has taken and that are under way to address these challenges. It also outlines further actions that GAO believes are needed. This analysis should help the new Congress and administration carry out their responsibilities and improve government for the benefit of the American people.		
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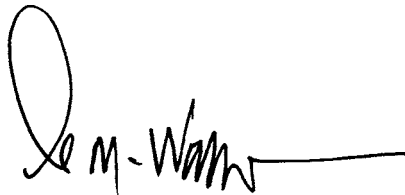
The President of the Senate
The Speaker of the House of Representatives

This report addresses the major performance and accountability challenges facing the Department of State. As the lead agency representing U.S. interests overseas, the Department of State is vested with a wide range of responsibilities, including formulating U.S. policy on diverse international issues; coordinating and implementing U.S. government programs and activities overseas; and influencing other countries to adopt policies and practices consistent with U.S. interests. As such, the Department has responsibility for, among other things, assisting U.S. businesses overseas, providing services to U.S. citizens abroad, issuing passports and visas, participating in international drug control programs, and providing security to U.S. personnel and facilities overseas. This report includes a summary of actions that State has taken and that are under way to address these challenges. It also outlines further actions that GAO believes are needed. This analysis should help the new Congress and administration carry out their responsibilities and improve government for the benefit of the American people.

This report is part of a special series, first issued in January 1999, entitled the *Performance and Accountability Series: Major Management Challenges and Program Risks*. In that series, GAO advised the Congress that it planned to reassess the methodologies and criteria used to determine which federal government operations and functions should be highlighted and which should be designated as “high risk.” GAO completed the assessment, considered

comments provided on a publicly available exposure draft, and published its guidance document, *Determining Performance and Accountability Challenges and High Risk* (GAO-01-159SP), in November 2000.

The full 2001 *Performance and Accountability Series* contains separate reports on 21 agencies—covering each cabinet department, most independent agencies, and the U.S. Postal Service. The series also includes a governmentwide perspective on performance and management challenges across the federal government. As a companion volume to this series, GAO is issuing an update on those government operations and programs that its work identified as “high risk” because of either their greater vulnerabilities to waste, fraud, abuse, and mismanagement or major challenges associated with their economy, efficiency, or effectiveness.

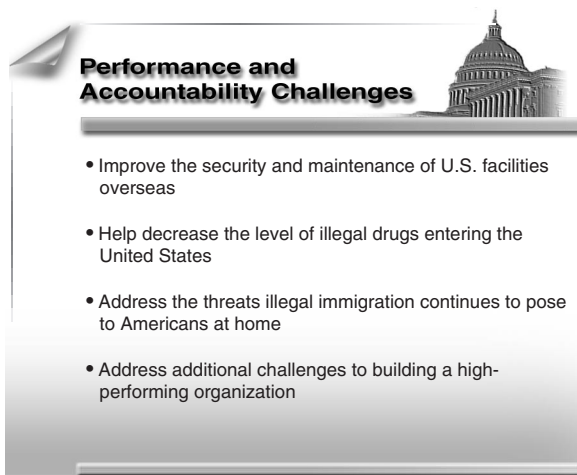
A handwritten signature in black ink, appearing to read "D. M. Walker", followed by a horizontal line extending to the right.

David M. Walker
Comptroller General
of the United States

Overview

As the lead agency for the conduct of foreign affairs, the Department of State has enormous responsibilities. The successful practice of U.S. diplomacy is essential to ensuring security at home, laying the groundwork for better jobs and a higher standard of living, providing a healthier environment, and assuring safe travel and the ongoing conduct of business abroad. To help manage these responsibilities, State maintains a worldwide network of operations at almost 260 diplomatic and consular posts worldwide and supports the activities of about 30 other U.S. government agencies. As it pursues its international objectives, it must take into account the multiple and often competing intentions and interests of these agencies, other governments and organizations, public opinion, and the Congress, as well as available resources.

In carrying out its mission, the Department faces a number of significant performance and accountability challenges, as our work has shown. These challenges cover a wide spectrum of U.S. government operations around the world affecting Americans at home and abroad.



Performance and Accountability Challenges

- Improve the security and maintenance of U.S. facilities overseas
- Help decrease the level of illegal drugs entering the United States
- Address the threats illegal immigration continues to pose to Americans at home
- Address additional challenges to building a high-performing organization

Embassy Security

State's most critical infrastructure need is to enhance the protection of U.S. embassies and other overseas facilities in response to the increased threat due to terrorism. State has taken many steps to upgrade security at its diplomatic missions around the world since the 1998 bombings in Africa. These improvements include deploying hundreds of additional security agents overseas and enhancing physical security through a variety of means. In addition, State has begun replacing some of its most vulnerable embassies and consulates with more secure facilities. State estimates that it will cost \$15 billion over 10 to 15 years for projects in more than 180 locations. Our work has shown that State will face several challenges in administering this extensive security construction program, including improving long-term planning for the program and working with the Congress in charting the future course, priorities, and funding levels for the program. We recommended that State develop a long-term, capital construction plan to assist decisionmakers in reaching consensus on the

program. Successful implementation of overseas security enhancements and construction activities will improve the safety and security of U.S. employees working abroad.

Drug Control

Illegal drugs, primarily cocaine and heroin, continue to threaten the health and well-being of American citizens. The principal source of cocaine and heroin entering the United States is South America, and specifically Colombia. In 1993, the United States developed a policy designed to reduce the production of illegal drugs in South America and stem their flow through Latin America and the Caribbean. Our work has shown that billions of dollars invested by the United States and foreign countries to carry out this policy have resulted in the arrest of major drug traffickers and the seizure of large amounts of drugs, but the availability of drugs in the United States has not been materially reduced. To continue to attack this problem, the Congress recently provided more than \$1 billion in counternarcotics assistance to Colombia, which State will largely oversee. In October 2000, we reported that State had experienced difficulty effectively managing past assistance to Colombia and recommended that State develop implementation plans to ensure that the new assistance is well managed and used effectively. We also noted that a sustained long-term commitment will be necessary to notably reduce the level of illegal drugs entering the United States.

Illegal Immigration

State is responsible for providing expeditious visa processing overseas to qualified applicants. State, in conjunction with the U.S. Immigration and Naturalization Service, must also prevent the entry of those who are a danger to U.S. security or are likely to remain in the United States illegally. Over the years, State has introduced new technologies, equipment, and controls designed to improve visa processing and

reduce the incidence of fraud. However, based on our work and that of State's Office of Inspector General (OIG), visa processing remains a significant challenge for the Department. The reasons for these problems include staffing shortages, inexperienced staff, insufficient staff training, and difficulties in managing visa antifraud programs. State recognizes that it must remain vigilant in these areas to further reduce the vulnerability of the visa system and has several initiatives underway or completed to counter visa fraud.

Additional Challenges

In addition to the specific performance challenges cited above, State faces several other agencywide performance and accountability challenges that hamper its ability to become a high-performing organization. These challenges are (1) better utilizing the 1993 Government Performance and Results Act process to help achieve its objectives, (2) enhancing communication and information technology and security, (3) improving financial management, (4) adopting modern human capital practices, and (5) restructuring the U.S. overseas presence to improve the efficiency and effectiveness of operations. State has recognized these challenges and has demonstrated a commitment to addressing them, as follows:

- State has improved its strategic and performance planning to better capture its goals and measures, but its performance reporting needs to better demonstrate progress toward meeting its goals.
- State has implemented many of our information technology and security recommendations; however, new challenges have emerged as State embarks on developing an interagency technology platform with its inherent security risks.
- State has made progress toward its goal of improving financial systems but still needs to bring its systems into full compliance with federal financial systems

requirements and resolve internal control weaknesses.

- Consistent with GAO studies of best practices in high performance organizations, State's in-house studies highlighted the importance of developing a human resource strategy that is in line with its mission.
- Over the years, we have recommended that State reassess its overseas structure in light of changing political, economic, security, and technological requirements; and, this effort is currently underway.

We believe that addressing these issues will be critical to the Department's ability to effectively carry out U.S. foreign policy.

Major Performance and Accountability Challenges

The Department of State is vested with a wide range of responsibilities, including formulating U.S. policy on diverse international issues; coordinating and implementing U.S. government programs and activities overseas; and influencing other countries to adopt policies and practices consistent with U.S. interests. As such, the Department has responsibility for, among other things, assisting U.S. businesses overseas, providing services to U.S. citizens abroad, issuing passports and visas, participating in international drug control programs, and providing security to U.S. government personnel and facilities overseas. State maintains a network of operations in 160 countries, employs a staff of over 50,000 U.S. and foreign nationals, and maintains thousands of facilities overseas to support U.S. activities.

This report summarizes our recent and ongoing work and that of State's Office of Inspector General concerning the performance and management challenges and issues State faces in accomplishing some of its key strategic and diplomatic readiness goals and its overall mission. State has identified 16 strategic goals it will pursue as it conducts diplomatic activities and public diplomacy overseas as part of its effort to represent the United States. Underlying the ability of the Department and other agencies to attain these goals internationally is diplomatic readiness, which captures the personnel, resources, and infrastructure the Department needs to carry out its own mission and support other U.S. agencies abroad in pursuing their missions. State's strategic and diplomatic readiness goals that we selected to review are (1) establishing and maintaining infrastructure and operating capacities that enable employees to pursue policy objectives and respond to crises—in particular, State's efforts to improving the security and maintenance of its overseas facilities; (2) reducing the levels of illegal drugs entering the United States; and (3) controlling how immigrants and nonimmigrants enter and remain in the United

States. We also discuss additional management challenges in the diplomatic readiness area that State has been dealing with for years. These include the need to (1) improve strategic and performance planning consistent with the 1993 Government Performance and Results Act (Results Act); (2) enhance information technology and security, specifically efforts to develop a common interagency communications platform; (3) improve financial management; (4) address human capital issues; and (5) restructure overseas operations consistent with U.S. foreign policy priorities.

Improve the Security and Maintenance of U.S. Facilities Overseas

The need to adequately protect employees and their families from threatened terrorist attacks overseas may very well be the single most important management issue currently facing the State Department. The August 1998 bombings of the U.S. embassies in Nairobi, Kenya, and Dar es Salaam, Tanzania, immediately brought into focus the seriousness of this security challenge. In response to those attacks, State determined that it not only needs to enhance security at all existing facilities but that in the long term it must replace over 180 facilities where existing facilities may be vulnerable to attack. To accomplish these security enhancements, State had to deal with challenges in hiring and training personnel to protect and replace its overseas infrastructure and in acquiring the necessary security equipment. Linked to these challenges are the ongoing efforts of the Department to work with other agencies to formulate a strategy for effectively addressing the U.S. overseas presence. Further, the Department continues to face long-standing difficulties in effectively maintaining its facilities to avoid premature and costly deterioration.

Security Upgrades

Since the bombings in Africa, State has taken many steps to upgrade security at its diplomatic missions around the world. These steps have included deploying

hundreds of security agents overseas to augment posts' security; enhancing the physical security of facilities through several means, such as installing shatter-resistant window film; establishing surveillance detection teams to identify hostile surveillance and monitoring; and purchasing additional property as buffer zones for facilities. State's OIG reported that the Department did many things well in administering the almost \$1.5 billion it received in emergency supplemental funding shortly after the bombings and that senior-level attention was instrumental in the Department's effective use of these funds. The OIG added that, for example, considerable progress had been made in hiring, assigning, and training new security personnel.

Although State has made these improvements, it also realized that the funds originally allocated for major construction upgrades to improve the security of existing facilities would not be sufficient. After the bombings, State allocated \$181 million for major security upgrades and electronic equipment installations. As surveys were conducted and more complete information became available, State determined it could potentially cost about \$800 million more to complete the security enhancements. State received about \$200 million for fiscal year 2001 to address these requirements and may make future budget requests and/or take other actions, such as realigning funds from other programs, to achieve major upgrade objectives intended to better protect employees and their families overseas.

**Embassy and
Consulate
Construction**

Although the Department of State is making security enhancements at all U.S. embassies and consulates, about 80 percent of overseas U.S. diplomatic facilities still do not have adequate security and may be vulnerable to terrorist attack until new facilities can be built. To begin replacing the most vulnerable embassies and consulates, the Congress appropriated about \$1.1 billion for fiscal years 1999, 2000, and 2001 for State's capital security construction program. State has estimated that \$15 billion or more will be needed for replacement projects in over 180 locations around the world where existing facilities may be vulnerable. State has entered the construction phase on seven new embassy and consulate projects since the 1998 bombings. It will take many years before the Department makes substantial headway in replacing all of its vulnerable facilities.

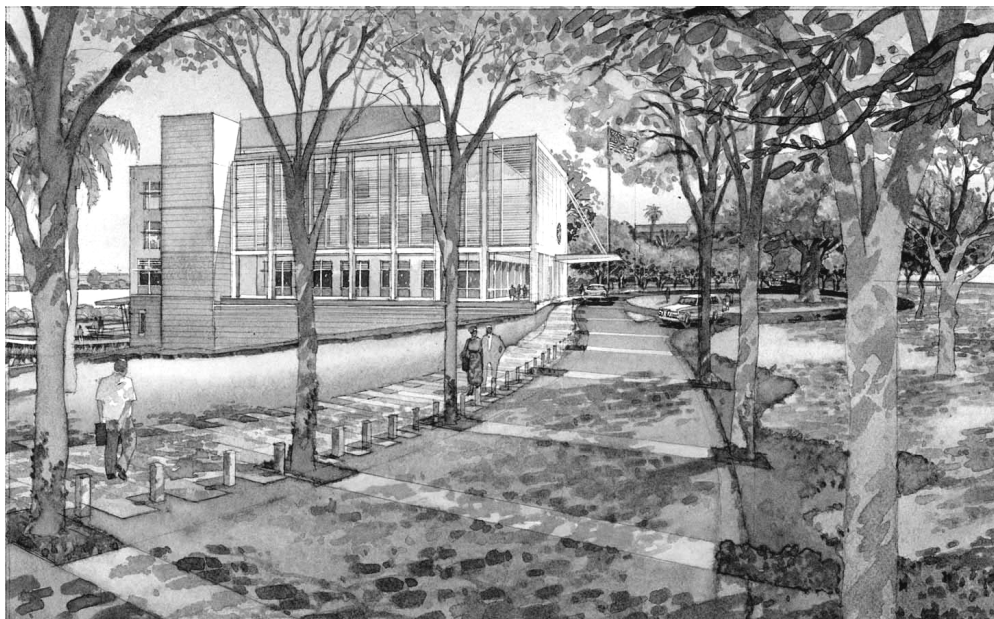
Figure 1 shows the U.S. Embassy in Nairobi, Kenya, just after the August 1998 bombing and figure 2 shows the architect's rendition of the new embassy currently under construction.

Figure 1: The U.S. Embassy in Nairobi, Kenya, After the August 1998 Bombings



Source: State Department.

Figure 2: Architect's Drawing of the New Embassy Now Under Construction in Nairobi



Source: State Department.

While State has identified a number of facilities as high priority for replacement and has several studies underway that should help it manage the overall program, it has not prepared a long-term capital construction plan. Long-term capital planning is a best practice that has proven useful to other organizations in the public and private sector for controlling capital costs and providing a rationale for allocating funding. We recommended that State develop a long-term plan that identifies proposed construction projects and estimated costs, and a timetable for completion. The plan would cover at least 5 years and be updated annually. The plan would enable State to better support its funding requests, support efforts to reach consensus by decisionmakers in the executive and legislative

branches on the program's requirements, and help improve accountability for program results.

Facility Maintenance

Facility maintenance has been a long-standing infrastructure challenge for the Department. In the early 1990's, we put the Department's management of overseas real property on our high-risk list partly due to insufficient maintenance of facilities. The principal causes of State's maintenance problems were lack of funding, professional attention to maintenance needs at the post level, and programs for maintenance and repair. In 1995, we removed this function from the high-risk list because State had surveyed maintenance conditions overseas and made some improvements. In 1999, the OIG stated that while State has made some progress in maintaining its facilities, fundamental challenges remain. State's unfunded maintenance and repair requirements in 1999 exceeded \$100 million for more than 650 buildings overseas. About 230 of those facilities were categorized by State as being in unacceptable condition due to unfunded maintenance requirements exceeding \$100,000 each.

Department officials largely attributed cost-cutting over the past several years as a reason for the poorly maintained properties. State's OIG agreed that funding is an issue but has reported that the Department needs to do more to address its maintenance and repair problem as a management concern. Specifically, the Inspector General has said that the Department needs to better define what is an acceptable level for its backlog of maintenance requirements and to develop a baseline that will address the costs to reduce the backlog to an acceptable level.

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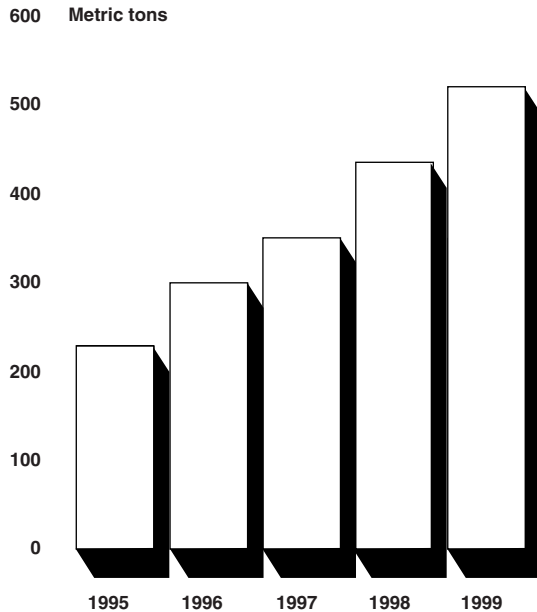
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Help Decrease the Level of Illegal Drugs Entering the United States

The U.S. international drug control strategy emphasizes reducing the production and flow of cocaine and heroin before they reach the United States. The Department of State plays a key role in implementing the strategy, which is designed to reduce drug trafficking in the source countries of Colombia, Bolivia, and Peru and in transit areas within the Caribbean, Central America, and Mexico. In July 2000, the Congress provided State and other U.S. agencies more than \$1 billion to help reduce illegal drug activities in the source and transit region. Figure 3 illustrates the rise in estimated potential cocaine production in Colombia, the primary source of cocaine shipped to the United States.

**Figure 3: Estimated Potential Colombian Cocaine Production
1995-99**



Source: State Department.

Since fiscal year 1996, hundreds of millions of dollars of assistance have been provided to Colombia. However, some of the assistance has been of limited utility because of inadequate planning and implementation by State and other U.S. agencies. For example, State provided helicopters to the Colombian National Police and military without sufficient spare parts or operational and maintenance support. The current U.S. assistance program, funded for 2 years, calls for additional equipment to be provided to the Colombian military and the National Police, yet State and other agencies have not developed an implementation plan ensuring that adequate logistical support, training, and infrastructure sustain the effort. To help ensure that

problems in supporting U.S. provided equipment to Colombia do not recur, we recommended in October 2000 that the secretaries of State and Defense determine training and logistical support requirements and identify future funding requirements to support U.S.-provided equipment, and complete U.S. implementation plans and coordinate with Colombian officials to ensure that equipment provided as part of any future U.S. assistance is adequately supported.

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**Address the Threats
Illegal Immigration
Continues to Pose
to Americans at
Home**

The State Department, through its overseas U.S. missions, processes about 9 million immigrant and nonimmigrant visa applications annually. Attempts to falsify, alter, or counterfeit U.S. visas or obtain genuine documents by fraudulent means are a constant problem. In our March 1999 report on visas issued to religious workers, we reported that the State Department and the Immigration and Naturalization Service were concerned about visa fraud but could not establish the full extent of the problem. Their knowledge of visa fraud is based on information developed primarily from fraud investigations and the visa screening process. The Department of State has maintained a strong emphasis on the need to improve the security of our borders, but the immigrant and nonimmigrant visa processes remain a significant challenge.

The Department has completed or has underway a number of initiatives to counter visa fraud. These efforts include setting up a machine-readable visa program at all visa-issuing posts, providing worldwide advisories to overseas posts regarding fraudulent documents,

improving the effectiveness of the name checking system, and increasing efforts to counter document fraud. The Department also continues to refine its consular lookout systems in an effort to better identify individuals who should not receive visas. Further, State improved its computer-generated information made available to consular and border-crossing posts to help prevent visa fraud and illegal entry by terrorists, criminals, alien smugglers, or simply intending immigrants.

State, however, still faces several challenges to preventing visa fraud. These include staffing shortages, inexperienced staff, and insufficient training for consular line officers. In addition, the OIG identified problems in State's management of antifraud programs such as insufficient analysis of fraud trends and inadequate supervision of overseas antifraud units. State is now working to correct these problems. While State's performance goals and indicators in its fiscal year 2001 Performance Plan address planned improvements to the visa process, they do not specifically address these and other management challenges we identified such as inadequate interagency coordination, and backlogs in visa processing.

Another challenge to controlling illegal immigration is the timely implementation of the border crossing card program. Border crossing cards are issued in lieu of passports and visas to Mexican nationals who travel frequently across the border into the United States. State has issued over 2.5 million cards since April 1998 that contain the fingerprints and electronic photograph of the bearer. See figure 4 below for a sample of a border crossing card.



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would make it possible to begin implementing plans for issuing a new generation of biometric-based,¹ smart card-type nonimmigrant visas at all consulates abroad.

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Address Additional
Challenges to
Building a High-
performing
Organization

State's management functions provide the foundation of support for U.S. government operations around the world. Therefore, it is incumbent upon State to strive to become a high-performing organization. To do so, State needs to choose the best strategies for integrating its organizational components, activities, core processes, and resources to support mission priorities. Consistent with concerns that we and State's OIG raised over the years, the Department is currently seeking ways to better utilize the Government Performance and Results Act process to improve its strategic and performance planning to better achieve overall mission, policy, and operational objectives. State is also enhancing its communications and information technology and computer systems security, including developing an interagency technology platform, and improving its financial management systems. Efforts are also underway to address human capital issues, including devising options for streamlining and rightsizing overseas operations.

State's human capital problems can be seen as part of a broader pattern of human capital shortcomings that have eroded mission capabilities across the federal government. See our *High-Risk Series: An Update*

¹ Biometric identifiers include fingerprints and handprints.

(GAO-01-263, January 2001) for a discussion of human capital as a newly designated governmentwide high-risk area.

**Improving
Performance
Planning and
Reporting**

The Results Act provides a framework for resolving management challenges and for providing greater accountability of State's programs and operations. As required by the Results Act, State has clearly articulated its strategic and diplomatic readiness goals of regional security, economic growth, and more. Our review of State's performance plans for fiscal years 1999 through 2001 indicated that State continues to improve its planning but additional improvements are needed to measure and assess performance in a meaningful way. The Department's fiscal year 1999 Performance Report, the first one required under the Results Act, lists numerous foreign policy accomplishments from the signing of peace agreements to trade agreements, but it did not adequately demonstrate State's level of success or participation in achieving the desired outcomes.

State's fiscal year 2001 performance plan provides much more detail on its intended performance compared to prior years' plans. The fiscal year 2001 plan uses a new format that attempts to capture more of State's performance goals and measures. It also indicates a clear division of responsibility among State's various geographic and functional bureaus. However, State's approach of listing individual performance goals and measures by bureau does not lend itself to assessing the agency's performance as a whole. Further, the Department has not developed overall priorities for achieving its strategic goals, and, consequently, has no overall basis for allocating resources to priorities.

State's fiscal year 1999 Performance Report did not adequately demonstrate State's level of success in achieving desired outcomes or the way in which State's actions actually led to the achievement of desired goals.

The performance report generally provides a narrative list of accomplishments under each of the 16 strategic goals and an annex of information on the measures for selected goals. However, it does not provide a clear assessment of the progress made toward meeting the Department's goals. For example, under the goal to reduce illegal drugs entering the United States, State does not specify how establishing police training academies, which are a measure of performance, helps it combat the availability of illegal drugs. Additionally, it was unclear how much the Department contributed to some of the outcomes it discussed or how unmet goals would be achieved in the future. For example, under the regional stability strategic goal, the Performance Report states that "U.S. access to Persian Gulf oil resources continued uninterrupted" but does not identify how the Department contributed to that positive outcome. Under expanding foreign markets, State did not indicate how it would meet its unmet targets for completing bilateral investment treaties with target countries.

State officials acknowledged that the performance plan needs to address the management challenges that the OIG and we have identified. Department officials stated that they intend to form strategic goal teams to produce a more focused fiscal year 2002 Performance Plan. The teams, led by senior managers, will identify and prioritize performance goals. Officials also plan to amend the fiscal year 2002 plan to make it more comprehensive, particularly in the areas of managing information technology modernization and security, financial management, and hiring and training staff, discussed below. Effective planning in these critical areas would help State to become a high-performing organization.

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Enhancing Overseas Communication, Information Technology, and Computer Systems Security

State relies heavily on information technology to support its worldwide operations. While State has updated its systems infrastructure and improved system capabilities at overseas locations, the Department's ability to collaborate with other foreign affairs agencies via modern technology capabilities needs to be enhanced. Adding to this modernization challenge are computer security concerns. Because of the size, complexity, and importance of State's information technology program, we will continue to monitor State's progress with implementing the common platform, modernizing its information systems, and improving computer security.

State is leading an interagency effort, recommended by the Overseas Presence Advisory Panel,² to devise a system that meets the collective knowledge management and collaboration needs of the entire overseas foreign affairs community. State has already begun to take leadership in working with other federal agencies with an overseas presence and is in the early stages of planning for a common technology platform. It has established an interagency technology group that has begun defining system requirements for the platform. The group is establishing project milestones, developing cost estimates, and developing a project implementation plan. Pilot projects for two posts are currently under development. If the common platform is

² The Overseas Presence Advisory Panel, an independent panel convened by the Secretary of State, was formed in 1999 to consider the size, composition, and management of the U.S. overseas presence. In the panel's November 1999 report, it recommended that the Department develop and implement a strategy for standardizing information and communications networks at all posts while providing all agencies with the connectivity they need.

to become a reality, State will have to overcome cultural obstacles and get agreement from platform users on requirements. Further, it will have to do this while defining its own technical architecture and continuing to address pervasive computer security weaknesses that could increase with greater connectivity.

State must continue to work hard to overcome technology management system weaknesses and security concerns. In 1998, we reported that State lacked disciplined information technology project management processes, investment controls, and an enterprise architecture. Because of these weaknesses, we concluded that State could not be assured that it was making the most cost-effective system investment decisions, that these systems would perform as expected, or that its cost estimates were sound. We recommended that State make the development of a fully implemented information technology planning and investment process a top priority, including the development of a comprehensive architecture. State agreed with our recommendations and has made progress in implementing them, but it needs to continue this effort.

Previous GAO and OIG reports have cited information system security problems, including access control and security program management weaknesses, as significant challenges for the Department. For example, during computer security testing 2 years ago, we were able to access sensitive, unclassified information virtually undetected. In response, the Department worked hard to upgrade and secure its information technology and made real progress in implementing many of our recommendations, including clarifying roles and responsibilities, establishing a computer incident response team, and requiring the use of risk management by all project managers. State still needs to take steps to ensure that this progress is maintained, and that all audit recommendations and identified security

vulnerabilities are addressed, that automated intrusion detection programs are expanded, and that agencywide security management responsibilities are further clarified. Absent these needed improvements, State's computer networks will remain vulnerable to exploitation and unauthorized access.

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**Improving
Financial
Management
Capabilities**

State has made progress toward resolving its long-standing problems caused by the absence of an effective financial management system that can assist managers in making "cost-based" decisions. Since fiscal year 1997, State has received unqualified opinions on its financial statements. While not meeting the statutory deadlines, State has steadily improved the timeliness of its reporting. State has also resolved a number of its internal control weaknesses and is proceeding with planned efforts to improve its systems and processes needed to protect its assets and routinely produce timely and reliable financial information.

State needs to continue to bring its systems into full compliance with federal financial systems requirements. State also needs to resolve internal control weaknesses to ensure that timely and reliable financial information is available so Department officials can make sound decisions that promote effective and efficient use of federal funds. According to the independent auditor's report attached to State's Accountability Report for Fiscal Year 1999, State's financial management systems do not comply with certain laws and regulations, including the Chief Financial Officers Act of 1990. The act requires the development and maintenance of an

integrated accounting and financial management system that, among other things, provides for complete, reliable, and timely information that meets the financial information needs of the agency's management and a systematic measurement of performance.

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**Human Capital
Practices Need to
Be Updated**

Although State has traditionally attracted some of the nation's most talented people, a recent Department-wide study³ concluded that an increasingly competitive job market and expanded private sector opportunities for geographic mobility have drawn potential Foreign Service Officers into other professions. According to the study, the challenges that State faces in recruiting and retaining top-quality employees fall into several areas. These include the need for State to (1) establish a strong link between current performance and promotions, (2) improve the quality of life at overseas posts, and (3) improve the quality of its management.

The Overseas Presence Advisory Panel also concluded that State needed to reform its human resource practices because it does not currently have the flexibility, resources, or strategic organization required to support its mission. The panel visited 23 overseas posts in conducting its work and found that personnel matters topped the list of issues discussed. The panel reported that employees were dissatisfied with evaluation processes, career advancement

³ The 1999 study, titled "The War for Talent," was prepared by McKinsey and Company for State. It compared the views of State's employees and managers to those in top-performing companies.

opportunities, sensitivity to lifestyle issues, the degree of autonomy and responsibility offered by their positions, and the quality of management. Employees wanted, among other things, more training in languages, leadership, management, and new issues. The panel recommended that State develop a comprehensive human resource strategy that is based on a detailed statement of its mission, definition of the work to be done, and identification of personnel requirements; and, that State develop and implement a recruitment strategy designed to fulfill these needs. This approach of strategically aligning human capital with organizational goals and objectives is consistent with our studies of best practices used by high performance organizations, and similar studies done by other organizations.

According to State, it has begun to implement many of these recommendations. For example, it has started to develop a new, unified human resources strategy for the Department. The strategy will include a domestic and overseas staffing picture along with a 5-year projection based on State's overseas staffing model and bureau budget presentation documents. To improve the quality of life at its overseas posts, State has negotiated bilateral work agreements with 126 nations and is reviewing Department rules restricting employment opportunities for spouses of employees working overseas. It has also developed a pilot, 360-degree review process that will allow employees to give meaningful feedback on how their supervisors performed as leaders, managers, and mentors—in a nonthreatening and constructive fashion designed for personal and professional development. The Department also plans to expand leadership and management training, increase security training, reshape the reporting and policy functions, and examine ways of making the assignment process more responsive to management and employee needs.

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**Efforts to Realign
the Workforce With
Mission**

A key challenge for the State Department and the other agencies operating overseas is how to adjust the U.S. overseas presence to the new economic, political, security, and technological requirements of the 21st century. Presently more than 50,000 American, foreign service national, and contract employees work at U.S. government locations. In recent years, we have raised concerns about the need to reexamine the U.S. overseas presence in light of increased threats of terrorist attacks and the billions of dollars in annual costs associated with overseas operations. We have recommended that State reexamine the way it conducts overseas administrative functions, such as relocating and housing employees. From our work, we also have suggested that State explore options for regionalizing certain functions and making greater use of technology and outsourcing to achieve efficiencies and improve performance.

In March 2000, State established a high-level interagency committee to determine the right size and composition of overseas posts. The work of this committee is ongoing, with interagency pilot projects under way designed to determine if the U.S. government is doing the right things with the right people in the right places. Progress in addressing right-sizing issues faces several challenges, including State's limited authority and influence over the staffing decisions of other agencies operating overseas. Continued high-level commitment from all participating agencies will be needed to complete this effort.

**Major Performance and
Accountability Challenges**

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